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C O N F I D E N T I A L SECTION 01 OF 02 CONAKRY 000196

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SUBJECT: IMF/WORLD BANK DELEGATION SENDS CLEAR MESSAGE

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Classified By: A/DCM SHANNON CAZEAU FOR REASON 1.4 B AND D

¶1. SUMMARY. A visiting delegation from the IMF and the World Bank spent a week evaluating the GoG's budgetary situation, confirming growing concerns about Guinea's economic situation. Dramatically reduced revenues, mounting debt, and a huge projected budget shortfall in 2009 suggest that the country is rapidly approaching a crisis point. During a meeting with CNDD president Dadis, the delegation set down the IMF/WB's positions in unambiguous terms - no assistance without the installation of a legitimate government. The delegation also expressed concern about problematic fiscal management policies, which could ultimately derail the IMF program further down the road, even if elections move forward. END SUMMARY.

¶2. (SBU) After a week of meetings with Guinean Government officials, a Washington-based delegation from the IMF and the World Bank, led by Jean LeDem, provided members of the international community with an out briefing on March 27. Attendees included the Ambassadors of France, Russia, and Japan, as well as senior officials from the UN, Spain, the EU, and the Islamic Development Bank. A/DCM Shannon Cazeau represented the USG.

¶3. (C) LeDem painted a grim picture of rapidly declining government revenues, mounting debt, and significant budget shortfalls. For the first time since the December 23 coup, IMF and WB representatives were able to sort through piles of receipts in order to gauge Guinea's economic health. What they saw were dramatically dwindling mining revenues coupled with similar declines in tax and customs receipts. LeDem stated that the GoG is now looking at a projected budget deficit of 1200 billion GnF (\$250 million) for 2009. He added that the budget developed in the last quarter of 2008 needs to be completely redone as the projected revenues are nowhere close to Guinea's economic reality.

¶4. (C) As revenues decline, it is becoming increasingly difficult for the GoG to meet its financial obligations. LeDem stated that the GoG is implementing a military salary increase at an annual price tag of 44 billion GnF (\$9.2 million). Meanwhile, the GoG is barely keeping up with salary payments to civil servants. In addition to internal obligations, Guinea must service a significant amount of multilateral and bilateral debt through monthly payments of several million dollars. Other than budgetary cuts of "non-essential" expenses, the GoG did not seem to have any idea how to address the looming crisis.

¶5. (C) LeDem noted that although Central Bank reserve levels were within the IMF's recommended limits at the end of 2008, problematic fiscal and budgetary management issues had already started to emerge before the coup. CNDD changes to the country's fiscal management, such as the audit commission and controls over Finance and the Central Bank, have only

complicated these issues.

¶ 16. (SBU) At the request of the CNDD president, Moussa Dadis Camara, the delegation went to Camp Alpha Yaya the evening of March 26 for a two and a half hour meeting. Dadis reportedly spoke at length for 90 minutes before giving the delegation a chance to respond. He repeatedly requested both financial and technical assistance, emphasizing that the GoG specifically needed help in addressing taxation, customs, and the fishing and mining sectors. LeDem emphasized that the IMF and the World Bank are not independent institutions, but rather, an extension of the international community as a whole. As such, for the IMF/WB programs to be put back on track, it is imperative that Guinea transition to a legitimate government through free and fair democratic elections.

¶ 17. (SBU) In response to a question about what Guinea might have gained from the delegation's visit, LeDem said that the delegation was able to provide a clear explanation of the IMF/WB's role and position. "We laid it all out there for them...and made it clear that debt relief and other types of assistance are a long way off." At the same time, LeDem said they were able to highlight problematic fiscal management issues that could make it difficult to restart the program later on, even when a democratic government is in place. LeDem added that the IMF and World Bank would likely send another delegation in May.

¶ 18. (C) In a follow-on telephone conversation with A/DCM, World Bank Country Representative Siaka Bakayoko said "they turned out to be even more pessimistic than I was...I didn't

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think that was possible!" He added that the delegation's deeper pessimism was due to the fact that they were actually able to delve into the books, something that Siaka has been trying to do since the coup. Siaka was pleased with the way the delegation had asserted itself with the Guinean Government, and in particular, with the unambiguous message they delivered to Dadis. At the same time, he was concerned that Dadis did not really understand the message. "I don't know if he really grasps the magnitude of the crisis ahead," Siaka said.

COMMENT

¶ 19. (SBU) Of all the international actors, the IMF and the World Bank may have the strongest leverage. Recent discussions with high-level Guinean bureaucrats indicate that the GoG has been counting on renewed donor assistance, and in particular, HIPC debt relief, to stay afloat in the months ahead. By driving home the message that debt relief is not going to happen without elections, the IMF/WB delegation set down an important marker. It is too early to tell whether or not the message was received and understood, but it hopefully conveyed to the CNDD and the GoG a sense of unity within the international community in terms of policy towards the junta.

END COMMENT.

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